S. HRG. 98-123

CAPITAL CONSTRUCTION FUND FOR FISHERY PROCESSING FACILITIES

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 254

TO PROVIDE FOR INCLUSION OF CAPITAL CONSTRUCTION FUNDS FOR FISHERY PROCESSING FACILITIES

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CAPITAL CONSTRUCTION FUND FOR FISHERY PROCESSING FACILITIES

THURSDAY, MAY 12, 1983

U.S. SENATE,
COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:34 a.m. in room SR-252, Russell Senate Office Building, Hon. Ted Stevens presiding.

Staff members assigned to this hearing: Dennis Phelan, staff counsel and James Drewry, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. This hearing has been called on S. 254, which is a bill to amend the Merchant Marine Act of 1936 to consolidate the use of the capital construction fund by the domestic fishing industry.

The current provisions of the capital construction fund encourage fishermen to put income from their operations back into vessels by depositing funds in special tax deferred accounts. This bill extends the capital construction fund to include shoreside processing facilities. It will allow needed capital to be funneled into the processing and distribution aspects of the fishing industry.

I cannot overemphasize the importance of stimulating balanced growth within the industry so that we will achieve full domestic utilization of our fishery resources. The competitiveness of American industry in the international arena must be promoted and expanded. A higher level of productivity and innovation can be achieved by the fishing industry with proper incentives. If given the opportunity, the U.S. fishing industry can enhance our overall productivity in the food processing industry.

Relatively large capital expenditures will be necessary for the fishing industry to realize its growth potential. Composed mainly of small- to medium-sized businesses, our domestic fishing industry is often unable to gain access to typical private capital sources for either equity or long-term debt. By extending the construction fund provisions to shoreside facilities, a major portion of the needed equity dollars will be available.

The capital construction fund has radically changed the domestic fishing fleet, but harvesting is only part of the total "fishing" picture. Our harvesting capacity has exceeded the capability of exist-

ing processing facilities. This causes tremendous productivity problems. The U.S. enjoys 20 percent of the world's total fishery resources within its 200-mile Fisheries Conservation Zone [FCZ] but statistics from 1981 show that we continue to import about one-half of the fish consumed. Substantial improvements and innovation will be necessary in many shoreside unloading, processing and distribution facilities over the next 10 years.

The capital construction fund currently allows any citizen owning or leasing eligible U.S. fishing vessels to establish a special account for the purpose of acquiring replacement vessels, additional vessels or reconstructed vessels. The money deposited is income resulting from the operation of a vessel. The value of this concept to the American fisherman is that taxation can be deferred on those dollars set aside in the special fund which then may only be used for procuring new or replacement fishing vessels. Otherwise, the tax deferral status of the fund is lost. The deferred taxes are eventually recovered by offsetting reductions in the depreciation allowance for the property acquired with these tax-deferred funds, except to the extent that new additions to the fund defer taxes further.

Capital construction fund accounts from the harvesting sector total $480 million. Of that amount, $360 million has been returned to the fishing fleet in the form of equity investment, leaving a net amount of $120 million in deposits available at the present time.

Just as many other facets of our society are searching for economic recovery, the entire fishing industry is facing serious hardship. Permanent benefits from the construction fund extension would be felt by all Americans in new jobs, growth in the gross national product and a reduced trade deficit.

The development of shore-based processing has been targeted as the top priority of the U.S. fishing industry. Consolidating the use of CCF offers an incentive to American fishermen to invest their income in the undercapitalized sector of their own industry.

I want to thank everyone for coming here today to testify on this important measure. We welcome any recommendations to this legislation which will enhance its effectiveness for the industry.

I remember well the capital construction fund concept, and my good friend the former Senator from Washington, Senator Magnuson, and I worked on this concept from the beginning. I think it has worked very successfully, and it is time now to consider whether we should allow the use of these funds onshore.

[The bill follows:]

II

98TH CONGRESS
1ST SESSION

S. 254

To provide for inclusion of capital construction funds for fishery processing facilities.

IN THE SENATE OF THE UNITED STATES

JANUARY 27 (legislative day, JANUARY 25), 1983

Mr. STEVENS (for himself, Mr. LONG, Mr. PACKWOOD, Mr. MURKOWSKI, and Mr. TRIBLE) introduced the following bill; which was read twice and referred to the Committee on Commerce, Science, and Transportation

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A BILL

To provide for inclusion of capital construction funds for fishery processing facilities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

TITLE I—INCLUSION OF CAPITAL CONSTRUCTION FUNDS FOR SHORE-BASED FISHERY PROCESSING FACILITIES

Subsection (a) of section 607 of the Merchant Marine Act, 1936 (46 U.S.C. 1177), is amended to read as follows:

"(a) AGREEMENT RULES.—(1) Any citizen of the United States owning or leasing one or more eligible vessels (as defined in subsection (k)(1)), or one or more eligible fish-

ery facilities (as defined in subsection (k)(9)), may enter into an agreement with the Secretary of Commerce under, and as provided in, this section to establish a capital construction fund (hereinafter in this section referred to as the 'fund') with respect to any or all of such vessels or facilities. Any agreement entered into under this section—

"(A) shall be for the purpose of providing—

"(i) replacement vessels, additional vessels, or reconstructed vessels, built in the United States and documented under the laws of the United States for operation in the United States foreign, Great Lakes, or noncontiguous domestic trade,

"(ii) replacement fishing vessels, additional fishing vessels, or reconstructed fishing vessels, built in the United States, American Samoa, the Virgin Islands of the United States, Guam, the Northern Mariana Islands, or any other commonwealth, territory, or possession of the United States and documented under the laws of the United States for operation in the fisheries of the United States, or

"(iii) replacement fishery facilities, additional fishery facilities, or reconstructed fishery facilities, located in the United States, American Samoa,

the Virgin Islands of the United States, Guam, the Northern Mariana Islands, or any other commonwealth, territory, or possession of the United States, and

"(B) shall provide for the deposit in the fund of the amounts agreed upon as necessary or appropriate to provide for qualified withdrawals under subsection (f).

"(2) In applying paragraph (1)(A)(ii) or (iii)—

"(A) withdrawals may be made from a capital construction fund for the purchase of a used fishery vessel or a used fishery facility for any reconstruction purpose, if such reconstruction will contribute to the development of the United States fishing industry;

"(B) nothing in this section shall be construed as prohibiting the establishment and use of a capital construction fund—

"(i) with respect to fishing vessels for purposes of acquiring fishery facilities,

"(ii) with respect to fishery facilities for purposes of acquiring fishing vessels, or

"(iii) for fishing vessels and fishery facilities; and

"(C) nationals of the United States and citizens of the Northern Mariana Islands shall be treated as citizens of the United States.

"(3) The deposits in the fund, and all withdrawals from the fund, whether qualified or nonqualified, shall be subject to such conditions and requirements as the Secretary of Commerce may by regulation prescribe or are set forth in such agreement; except that the Secretary of Commerce may not require any person to deposit in the fund for any taxable year more than 50 percent of the sum of (A) that portion of such person's taxable income for such year which is attributable to the operation of the agreement vessels, or (B) that portion of such person's taxable income for such year which is attributable to the operation of the agreement fishery facilities. For purposes of the preceding sentence, taxable income shall be computed in the manner provided in subsection (b)(1)(A).

"(4) Notwithstanding any other provision of law, any agreement for any of the purposes set forth in paragraph (1)(A) (ii) or (iii) may be amended in order to—

"(A) allow for the withdrawal of moneys from the fund established by that agreement and the subsequent deposit of those moneys in a fund established, whether by the same or different persons, under another existing agreement, or a new agreement, entered into for any such purpose or purposes; or

"(B) provide that one or more other persons may be permitted to become parties thereto and deposit moneys into the fund established by such agreement; whether or not any of the moneys for deposit are withdrawn pursuant to an agreement amended under subparagraph (A).

"(5) The Secretary may not require, in the case of any agreement entered into for the purpose of reconstructing a fishing vessel or fishery facility, that a minimum withdrawal be made from the fund. For purposes of this section, the reconstruction or reconditioning of a fishing vessel or fishery facility does not include the routine minor repair or maintenance of the vessel or facility.".

TITLE II—DEFINITIONS

Subsection (k) of section 607 of the Merchant Marine Act, 1936, is amended by adding at the end thereof the following new paragraphs:

"(9) The term 'eligible fishery facility' means any fishery facility which is located in the United States.

"(10) The term 'qualified fishery facility' means any fishery facility—

"(A) which is located in the United States, and

"(B) which the person maintaining the fund agrees with the Secretary of Commerce will be used

for one or more of the functions described in paragraph (12).

For purposes of this paragraph, paragraphs (1), (2), and (3) insofar as they relate to a fishing vessel, and paragraph (9), the term 'United States' includes American Samoa, the Virgin Islands of the United States, the Northern Mariana Islands, Guam, and any other commonwealth, territory, or possession of the United States; and, when applied with respect to a fishery facility described in paragraph (12)(B), includes the fishery conservation zone established by section 101 of the Fishery Conservation and Management Act of 1976 (16 U.S.C. 1811).

"(11) The term 'agreement fishery facility' means any eligible fishery facility or qualified fishery facility which is subject to an agreement entered into under this section.".

TITLE III—TECHNICAL AND CONFORMING AMENDMENTS

(A)(1) Subparagraph (A) of section 607(b)(1) of the Merchant Marine Act, 1936, is amended by inserting "(i)" after "(A)", and by inserting ", (ii) that portion of the taxable income of the owner or lessee for such year (as so computed) which is attributable to the operation of the agreement fishery facilities," after "the fisheries of the United States".

(2) Subparagraph (B) of such section 607(b)(1) is amended by inserting "or the agreement fishery facilities" after "the agreement vessels".

(3) Subparagraph (C) of such section 607(b)(1) is amended by inserting "or agreement fishery facility" after "any agreement vessel" each place it appears.

(4) Paragraph (2) of section 607(b) of such Act is amended by inserting "or an agreement fishery facility" after "an agreement vessel" and by inserting "or such facility (as the case may be)" after "such vessel".

(B)(1) Subparagraph (A) of section 607(f)(1) of such Act is amended by inserting "or a qualified fishery facility" after "a qualified vessel".

(2) Subparagraph (C) of section 607(f)(1) of such Act is amended to read as follows:

"(C) the payment of the principal on indebtedness incurred in connection with the acquisition, construction, or reconstruction of—

"(i) a qualified vessel,

"(ii) a qualified fishery facility, or

"(iii) a barge or container which is part of the complement of the qualified vessel.".

(C)(1) paragraphs (2) and (3) of section 607(g) of such Act is amended by inserting "fishery facility," after "vessel," each place it appears.

(2) Paragraph (4) of section 607(g) of such Act is amended by inserting "fishery facilities," after "vessels.".

(D) The terms "fishery facility" and "citizen of the Northern Marianas" as used in this title shall have the meanings given in Title XI of the Merchant Marine Act of 1936 (46 U.S.C. 1271–1280).

TITLE IV—EFFECTIVE DATE

The amendments made by this Act shall be effective upon its date of enactment.

○

Senator STEVENS. Our first witness today will be Bill Gordon, the Assistant Administrator for Fisheries of NOAA.

Good morning, Bill.

STATEMENT OF WILLIAM GORDON, ASSISTANT ADMINISTRATOR FOR FISHERIES, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, DEPARTMENT OF COMMERCE, ACCOMPANIED BY ROBERT HAYES

Mr. GORDON. Good morning, Senator. I thank you very much.

I have with me Bob Hayes of my staff, who will be prepared to respond to questions.

I would like to just have my full testimony inserted in the record and highlight some aspects of it.

One of the major objectives of the Department of Commerce is to promote the international competitiveness of American industry. Another is to foster greater productivity and innovation by American enterprise. And, from my standpoint, it is clear that the domestic fishing industry confronts a major growth opportunity of substantial value to the Nation with regard to the administration's economic recovery plan. It will provide the overall investment climate, lower interest rates and accelerated depreciation.

I think it is particularly important to point out that fisheries as a commodity is fifth in terms of our balance of trade, after oil, steel, autos and textiles, and that within the 200-mile fishery zone of the United States, we have 15 percent of the world's potential. If we utilize that we can make major contributions to a reduction in that unfavorable balance of trade.

Our earlier estimates indicate that domestic development over the next 10 years of just eight major fisheries resources in our 200-mile fisheries zone—that is, Pacific mackerel, Atlantic mackerel, Pacific hake, Atlantic hake, Atlantic squid, Gulf of Mexico groundfish, Atlantic groundfish and Hawaiian Island fisheries—will have a very significant effect.

We can increase domestic fisheries landings 2.5 million metric tons by 1990. We can add approximately $800 million annually to vessel revenues, create over 43,000 permanent jobs, add $1.2 billion to the gross national product and reduce our annual trade deficit by an estimated $1.7 billion.

I would note, Senator, that currently American fishermen are taking approximately 350,000 metric tons of fish out of Alaskan waters and they are being processed on board foreign vessels, thus denying an opportunity for substantial employment today, and that these fishermen are doing this in order to settle their debts when we have downturns in other fisheries.

So I believe very strongly that, in addition to cutting our trade deficit, we can develop our domestic processing capacity, and improve the productivity and efficiency of fishing operations by extending vessel operating capacity, both in terms of numbers of species of fish and the amount of time spent fishing.

We are mindful of the effectiveness of the capital construction fund to fishing facilities and of the problems it would face. We see that the problems of the industry currently do not necessarily stem from heavy taxation, and that the accelerated depreciation sched-

ule enacted in the Economic Recovery Tax Act of 1981 virtually eliminates the Federal income tax on capital formation and will stimulate investments in fishing industries.

Such an approach that we are talking about is a subsidy through the tax system and results in a loss to the Government and establishes a precedent that is perhaps undesirable. Other industries needing capital formation assistance could come in and demand the same subsidy, and the tax subsidies are very difficult to target. They benefit existing as well as future investments, and they tend to become permanent. Investment periods for processing facilities are suitable for commercial loans.

But we have deferred in the matter of tax policy to the Department of the Treasury and would strongly urge that the committee seek comments from the Treasury before making its decision.

However, I have long been troubled by the slowness in seeing our shoreside facilities developed and believe we are on the verge of seeing some development here, and there is a very strong interest in the processing sector of our fisheries economy to do so, and I feel strongly that this would be a very nice incentive for them to do so, instead of waiting for some period of time, which may substantially delay developments.

Inasmuch as fisheries off Alaska in particular offer tremendous potential, I would like very much to see this processing aspect accelerate and development take place.

We would be pleased to respond to questions, Senator.

Senator STEVENS. Thank you.

We will be pleased to confer with the Department of Treasury on their views on this. However we do not view this as a tax issue. These funds have already accumulated. Are the fishing vessels now in the fleet sufficiently modernized and upgraded so that they can compete with foreign nations?

Mr. GORDON. Yes, sir, the vessels are doing quite well, and I would go as far as to say that man for man and dollar for dollar invested the American fishing industry can outfish anyone in the world today.

Senator STEVENS. If we do not allow the use of these capital construction funds onshore, a prudent fisherman might be led to further modernize or further improve a fishing vessel, rather than pay those funds in taxes, would he not?

Mr. GORDON. Yes, and unfortunately we think in some fisheries this is occurring, because he is denied the use of those funds on other resources, creating an additional problem within that fishery. Because as decline or natural variability occurs in fisheries, such as king crab, fishermen in Alaskan waters are now financially in a bind. And particularly where they have these moneys, they have no choice but to build another vessel, and it just exacerbates an already critical problem.

Senator STEVENS. When the funds become available for use ashore, as they do under this change in the law, those funds and the investments and profits from those funds will no longer be subject to CCF. Would this terminate the cycle as far as those funds are concerned?

Mr. GORDON. That is correct, sir, and there are significant deposits still. There is about $115 million on deposit, $71 million of

which is in the Northwest between Seattle and Alaska. So there are significant funds on deposit already.

Senator STEVENS. I have one last question, and which is also a request. We know that the agricultural section of our economy has been very aggressive and has had substantial success in increasing the exports of food products in this country.

It is my understanding that through agricultural cooperative organizations, tax advantages have been achieved which are even greater than the CCF concept available to fishermen. As a consequence, farmers can take the money that they would otherwise pay in taxes and put it into processing and distribution facilities for food products—an advantage that fishermen have never had.

We would like to ask you to have some of your people work with the Department of Agriculture and advise us on the advantage that farmers have that fishermen do not have. Why does Federal law give a greater advantage to the farmer to consolidate capital and their potential investment power, enabling them to go into joint processing and distribution programs? Why are similar incentives not available to fishermen?

If you could give us such a report, I think it would be very helpful in convincing the Senate and the Congress to favorably consider this bill.

Mr. GORDON. We would be happy to look into it, sir.

Senator STEVENS. Thank you very much.

Mr. Phillips tells me that a farmer through a co-op can defer farming-associated income into a tax sheltered corporation, thereby paying tax only on the distribution that comes from the sheltered corporation, therefore giving them an advantage that the fishermen does not have.

I appreciate your appearance, Mr. Gordon. Thank you very much.

I want to put in the record following Mr. Gordon's statement a letter we have just received from the office of the commissioner of the Department of Fish and Game of the State of Alaska, expressing support for this bill.

[The statement follows:]

STATEMENT OF WILLIAM G. GORDON, ASSISTANT ADMINISTRATOR FOR FISHERIES, NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss S. 254, a bill to amend Section 607 of the Merchant Marine Act of 1936 to permit the establishment of capital construction funds for shoreside facilities in the fishing industry.

Present capital construction fund provisions allow certain U.S. merchant and fishing vessel owners to defer payment of Federal taxes on income from the operation of those vessels. Taxation is deferred on income annually set aside in special accounts reserved for the equity portion of future capital investments in vessels. All deferred taxes are eventually recaptured by offsetting reductions in the depreciation allowance for property acquired with tax-deferred funds, except to the extent that new additions to the funds further defer taxes.

One of the major objectives of the Department of Commerce is to promote the international competitiveness of American industry. Another is to foster greater productivity and innovation by American enterprise.

It is clear that the domestic fishing industry confronts major growth opportunity of substantial value to the Nation's economy, and the Administration's economic recovery plan will provide the proper overall investment climate, i.e., lower interest rates and accelerated depreciation.

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Our earlier estimates indicate that domestic development over the next ten years of just eight major fisheries resources in our 200-mile fisheries zone (Pacific mackerel, Atlantic mackerel, Pacific hake, Atlantic whiting, Atlantic squid, Gulf of Mexico groundfish, Atlantic groundfish, and Hawaiian Island fisheries) will have the following effects:

(1) Increase domestic fisheries landings by 2.5 million metric tons a year;
(2) Add $782 million annually to vessel revenues;
(3) Create over 43,000 permanent jobs;
(4) Add $1.2 billion annually to the gross national product; and
(5) Reduce our annual trade deficit by $1.7 billion.

In addition to cutting trade deficit in fishery products, development of domestic processing capacity can significantly improve the productivity and efficiency of fishing operations by giving vessels the opportunity to extend their operating capability—both in terms of the number of species fished and the amount of time spent fishing.

As you know, the Magnuson Fishery Conservation and Management Act gives us both the ability to restrict foreign fishing operations within 200 miles of our coastline and a mandate for development of resources which are currently underutilized by domestic industry. The American Fisheries Promotion Act provides additional authority for full development of the domestic fishing industry.

The eight major fisheries development opportunities mentioned previously are not the whole story. Fisheries harvesting capacity has outstripped shoreside processing capacity in some traditional fisheries, creating real productivity problems. Major technological improvements and innovations will have to be made over the next decade in many unloading, processing and distribution facilities.

I believe that whatever investment this Nation makes in the future productivity and afficiency of the domestic fishing industry will repay themselves many times over in terms of jobs for our citizens, additions to our gross national product, and a decrease of our trade imbalance.

However, we have several concerns about the appropriateness and effectiveness of the Capital Construction Fund to fishing facilities:

The problems faced by the fishing industry do not stem from heavy taxation. The accelerated depreciation schedule enacted in the Economic Recovery Tax Act of 1981, at the urging of the President, virtually eliminates the Federal income tax on capital formation and will stimulate investments in fisheries industries;

Such an approach is a subsidy through the tax system and results in a loss of revenues and it establishes a precedent that is undesirable (i.e., any other industry needing capital formation assistance could demand the same subsidy); and

Tax subsidies are difficult to target (e.g. they benefit existing as well as future investments) and tend to become permanent; and the investment periods for processing facilities are suitable for commercial loans.

Whether Capital Construction Fund provisions are an appropriate mechanism to achieve the results in the fishing industry that we all desire is a matter of tax policy. These provisions affect the collection of tax revenue. We wish, therefore, to defer to the Treasury Department at this time.

We strongly recommend that this Committee request the views of the Department of the Treasury on this proposal before making its decision.

[The following information was subsequently received for the record:]

U.S. DEPARTMENT OF COMMERCE,
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION,
Washington, D.C., June 7, 1983.

Hon. TED STEVENS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR STEVENS: You asked us to prepare a report showing the tax advantage that farmers have over fishermen through the use of cooperatives.

Briefly, under Section 521 of the Internal Revenue Code (IRC), a farmers' cooperative which qualifies is exempt from taxation. Income generated from sales of the cooperative's products are passed through to the members or patrons as patronage dividends.

Under Section 1381 through 1388 of the IRC, any corporation operating on a cooperative basis likewise can deduct patronage dividends from gross income and thereby escape corporate taxation. However, the patrons (the cooperative's members)

must include in their gross income the amount received as a dividend and pay personal income tax on it.

Within these provisions, a group of farmers could form a tax-exempt farmers' cooperative, create a wholly-owned subsidiary corporation, process and sell their products through the corporation, and pass all earnings back to the farmers without incurring any corporate tax. If a group of fishermen create a corporation which processes and/or sells their catch, under law the corporation must pay corporate taxes first before it declares a dividend to the fishermen. This is a decided advantage farmers have over fishermen. The Capital Construction Fund benefits available to fishermen are, as you know, tax-deferred rather than tax-exempt.

This briefly describes the situation as we understand it. We would be pleased to pursue the matter further if you wish. Preparation of a substantial report would require extensive contacts to develop the data base to demonstrate actual tax savings.

Sincerely yours,

WILLIAM G. GORDON,
Assistant Administrator for Fisheries.

Senator STEVENS. Mr. Jensen, the chairman of the National Fisheries Institute.

STATEMENT OF RON JENSEN, CHAIRMAN, NATIONAL FISHERIES INSTITUTE, PRESIDENT AND CHIEF OPERATING OFFICER, SEA ALASKA PRODUCTS, ACCOMPANIED BY RICHARD GUTTING, JR., VICE PRESIDENT—GOVERNMENT RELATIONS

Mr. JENSEN. Good morning, Mr. Chairman.

I am Ron Jensen, chairman of the board of the National Fisheries Institute. I am president and chief operating officer of Sea Alaska Products in Alaska, past president of Bumblebee Seafoods and Pan-Alaska.

With me today is Mr. Dick Gutting who represents NFI in government affairs matters.

I would like to just summarize my testimony. We put it in written form and I would like it to be part of the record.

I think there is great potential for the future expansion of the U.S. fishing industry; 15 percent of the world's fishery resources is within our zone. Full development of the industry would help all regions of the United States; not just Alaska, but all regions.

The seafood industry is at a pivotal point in its development. In recent years, the growth of some U.S. fishery fleets has outpaced the development of shoreside facilities.

NFI strongly supports this bill. I do want to take the time to thank you and other members of the committee for your leadership on this. I think this bill will help the U.S. fishery industry to do four things:

One, it will help us replace the foreign fleets in the fishery conservation zone with U.S. harvesting and processing companies.

Two, it will help us expand into underdeveloped fisheries, such as the Gulf of Mexico groundfish fishery.

Three, it will help us reduce spoilage and increase utilization and meet the growing demand for higher quality products.

And fourth, it will upgrade industrial fish products and products for human consumption.

Much of the capital needed to accomplish these things will have to come from within the fishing industry. Outside investors are reluctant to put up large amounts of capital needed. New fisheries have no track record of success. Average marginal returns in fish

processing have been low, sometimes in the 2- to 10-percent level. There are substantial variations in our industry of profits from year to year, and most processing companies are small and have limited resources.

This bill will help us in several ways: First, I feel it would be a catalyst to stimulate investment. It will cut in half the time needed by fish plants to accumulate invested capital.

Second, it will make the fish industry a more attractive investment for outside investors.

Third, I think it could provide an immediate influx of capital from fishermen with existing CCF accounts.

And fourth, it will help balance out investment between the harvesting sector and the processing sector.

I believe that this bill will encourage fish companies to reinvest their earnings and the industry will further expand. By accelerating growth in revenues, the bill would actually increase tax revenues in the long term. The bill, in short, is an excellent proposal for both the industry and the government.

Along the line of the phrase "barnacles on the bottom," let us say we in the industry both from the harvester and the processing sector recognize where the itch is and now we need some help on where to scratch. We need this, we need it desperately.

And again, in closing, NFI strongly supports this legislation. We hope it will pass. It is something that we feel very strongly about as a need. One of the problems that we have had in the past is that right now CCF can be used by bringing foreign vessels over, putting U.S. flags on them, tying them up to docks, and they can be using CCF funds, where that same shoreside facility in that same area does not have that same benefit. We would like to have that corrected so that we can have shoreside facilities in the same competitive position that now the floating facilities have.

Thank you, Mr. Chairman.

Senator STEVENS. Why is the U.S. industry lagging in the development of fish-processing facilities?

Mr. JENSEN. Well, we are in competition, as you know, with the foreign fleets that are heavily subsidized. It is evident that right now, with our capital needs and the cost of capital that we have, that it puts us at a major disadvantage in being competitive.

This bill would help us in a major way, because we would be using pretax dollars for investment. We would be paying back the Government over a period of time through reducing depreciation allowances and of course recapture. Many of those assets are eventually sold or transferred, et cetera. So this would be a major catalyst.

Mr. GUTTING. Mr. Chairman, to add to that comment, the obligation guarantee program and the capital construction fund began to be used significantly by the fish-harvesting sector around 1974. At that time we saw a rapid buildup of harvesting capacity. The processing side of the industry has not had use of the obligation guarantee program nor the capital construction fund.

Two years ago, with the help of this committee, the industry did get the obligation guarantee program extended to shoreside facilities, but it has taken us 2 years to really get that program started and to get the regulations on the street. It was only after Congress

intervened strongly that we got the regulations issued earlier this year.

So the harvesting sector has profited from these programs and has expanded. The shoreside facilities, on the other hand, have not had these programs, and one of the reasons for the difference in growth, I think, is this difference.

Senator STEVENS. Thank you, Mr. Gutting.

I feel that we are at a turning point in our harvesting ability within our 200-mile zone. We have staggering capacity, as Mr. Gordon said, for expansion. It seems that from our viewpoint the limitation on further expansion of the fishing effort is the limitation of shoreside-processing capacity.

Does NFI share that point of view?

Mr. JENSEN. Yes, we do.

Senator STEVENS. Can you think of any other action that we can take which would stimulate shoreside-processing buildup as rapidly as moving the CCF funds ashore?

Mr. JENSEN. Well, Senator, one of the things we have strongly supported is the phaseout of foreign fishing and processing within the FCZ, and this would be another catalyst that would help us in a major way. So we have strongly supported that type of legislation. We are looking at it now to see what balances and checks should be in it and make some recommendations. But that would be another catalyst that would be a major event to help our industry.

Senator STEVENS. In order to do that, we would either have to further develop domestic fishing capability or we have to have changed the law that currently requires an assessment of that capability before we can deny the foreign fishermen the right to fish within our zone. Therefore it is a catch-22 situation.

As best I can determine, the Alaskan point of view is that development of offshore fishing capacity is not going to occur until onshore-processing facilities are developed. Assurance of prompt processing of the catch and the realization of the income from the expanded activities are necessary.

The fishermen would thus have an opportunity to participate in another level of income within the fishing industry. Has NFI assessed this and its impact on the fishing industry?

Mr. JENSEN. We have assessed to the extent that we think it is very beneficial. We think it will allow us to further develop more rapidly these underutilized resources from the U.S. standpoint, and we strongly support it.

Senator STEVENS. In your testimory you mentioned, the CCF expansion concept has been supported by the GAO and by the Eastland fisheries study. Can you tell us more about those conclusions? What was the Eastland fisheries study?

Mr. GUTTING. This survey occurred several years ago, Mr. Chairman. It was a very comprehensive survey of opinions and suggestions from the fishing industry. It resulted from a resolution that Congress passed.

During the survey there were a series of regional conferences where officials went out and solicited the views of everyone in the industry. These were written up in regional reports, and then a national report was prepared and sent back to the Congress. It was

the last, most comprehensive survey of attitudes, opinions, and suggestions within the industry that I am aware of.

The survey report contained a strong suggestion that extending the capital construction fund to shoreside facilities was one of the things that could be done to promote the industry.

Senator STEVENS We thank you very much for your support, gentlemen.

Mr. JENSEN. Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF RON JENSEN, CHAIRMAN OF THE BOARD, NATIONAL FISHERIES INSTITUTE

Good morning, Mr. Chairman. I am Ron Jensen, Chairman of the Board of the National Fisheries Institute and President and Chief Operating Officer of Sea Alaska Products, a ConAgra company. The Institute is an association representing over 1,200 companies which harvest, process and market fish and seafood products throughout the United States.

The Institute greatly appreciates the opportunity to appear before the Committee and present its views on S. 254, a bill to provide for inclusion of capital construction funds for fishery processing facilities. The Institute strongly supports this proposal because it believes that the tax-deferral benefits provided in this program can strengthen the economic viability of the U.S. fishing industry and hasten its full development.

There is a great potential for the future expansion of the U.S. fishing industry. Fifteen to 20 percent of the world's fishery resources is within the exclusive fishery jurisdiction of the United States. Less than half the potential yields from U.S. waters, however, is harvested by U.S. vessels. U.S. demand for fishery products is increasing, yet more than half of the edible fishery products consumed in the U.S. is processed in whole or in part by foreign companies.

Full development of the industry would help all regions of the U.S. and would bring substantial benefits. A study conducted for the Department of Commerce concluded that the full development of just eight of our fisheries would:

Increase landings by 2.5 million tons.

Increase vessel revenues by $100 million.

Create 43,000 jobs.

Increase GNP by $1.2 billion.

Reduce the fishery trade deficit by $1.7 billion.

The seafood industry is at a pivotal point in its development. In recent years the growth of some U.S. fishing fleets has outpaced the development of shoreside facilities. Lack of U.S. processing and distributing capacity is now a serious limiting factor to growth. Further development in some fisheries requires high-volume operations with low profit margins. Processors in these fisheries must handle unfamiliar species and sell them in foreign markets. Relatively large capital investments are needed. Most processing companies are small or medium-sized and have difficulty in raising the large amounts of capital needed.

The cost associated with shoreside expansion are immense. To attractively handle an increased harvest, many processing companies recognize the need to install mechanized fish processing lines. In recent conversations with one company, we learned that the cost of going to a completely automated facility was in excess of $1 million in equipment costs without taking into account related plant improvements, including increased freezing capacity. The construction of a new multi-line processing plant including the cost of land, freezing capacity and equipment is likely to exceed $15 million and new floating processing facilities will cost in excess of $10 million. Given the current situation in the capital market, it would appear to make good common sense to permit firms in the industry to utilize pre-tax profit dollars to fund the significant expansion that must occur. The use of this program has been supported by the Eastland Fisheries Survey report and the General Accounting Office.

In conclusion, the Institute strongly supports the extension of the capital construction fund and believes that the members of NFI and other firms in the industry will reinvest earnings to further expand the industry's capacity.

Senator STEVENS. Our next witness is John Korth, the secretary-treasurer of Star-Kist.

STATEMENT OF JOHN KORTH, SECRETARY-TREASURER, STAR-KIST, FOODS, INC.

Mr. KORTH. Good morning, Mr. Chairman.

My name is John Korth. I am the secretary-treasurer of Star-Kist Foods, Inc. which is headquartered at Terminal Island, Calif. Star-Kist is a wholly owned subsidiary of the H. J. Heinz Co. Star-Kist is the largest tuna processor and marketer in the United States. It is also a processor and marketer of other canned and processed fish products, such as bonito, mackerel, anchovy, squid, and the like. It is heavily dependent upon its supply of raw fish from U.S. fishing-vessel owners who, by and large, are small independent businessmen by today's standards.

I am speaking today in behalf of my company and in behalf of the U.S. tuna-fishing industry.

The capital construction fund program is an excellently conceived program that has served the tuna industry well. It has allowed U.S. tuna fishermen to improve their fleets by enabling them to accelerate the accumulation of capital funds with which to replace or improve their fishing vessels or expand their operations. It is a tax-deferred program, not a tax forgiveness one.

Circumstances have changed, however, from those that existed in the economic climate when the capital construction fund program for fishing vessels was first enacted over 10 years ago. In fact, they have changed drastically since the program was last amended more than 6 years ago. Those were the days, you will recall, when a 10-percent interest rate was generally considered to be usurous.

Since then, foreign nations have almost universally extended their territorial jurisdictions of fishing rights to a 200-mile limit. As a consequence, certain foreign governments have aggressively expanded their fishing operations through direct or indirect subsidies. The result has been a significant increase in imports of foreign tuna products.

Another change that has taken place since the capital construction fund program was first enacted or last amended, has been liberalization of the depreciation and investment tax-credit provisions under the U.S. Internal Revenue Code. These and other U.S. tax-law changes have had a subtle but significant impact upon the continued effectiveness of the capital construction fund program.

Then, of course, there has been a prolonged worldwide economic recession which has nearly devastated the U.S. tuna-fishing industry. High fuel prices, high interest costs, high repair and maintenance costs coupled with lowered raw fish prices have nearly exhausted the working capital and equity funds of the average U.S. tuna fisherman. It is, therefore, proposed that the capital construction fund program needs to be expanded to help the U.S. tuna fishermen build up their capital basis.

The program presently is too restrictive in its application and use of funds. Star-Kist is in favor of modifying the capital construction fund program to encourage the development of United States or possessions shoreside fishing-related facilities in addition to the program's existing uses of funds for fishing vessels. This proposed modification would allow fishing vessel owners and/or processors to deposit pretax profits, such as they are today, into a capital con-

struction fund account for investment in fishing-related facilities. That would include not only U.S. fishing vessels but also land, buildings, and machinery necessary to process the fish catch. We believe this would give a much needed stimulus to the U.S. fishing industry which would result in increased employment and eventually in increased tax revenues. Presently, at least some of the accumulated capital construction funds are not being deployed in the U.S. tuna-fishing industry because of restrictions on the use of the funds.

Such funds could be deployed elsewhere in the tuna industry in shoreside facilities for immediate benefit of the U.S. tuna fishermen. Such funds could be used as equity capital to raise additional loan funds and thereby increase U.S. fishery investments three, four, or fivefold. Investments in shoreside facilities in the form of new or repaired docks, freezers, processing and storage facilities, all of which are necessary to the continued economic operation of the U.S. tuna-fishing vessels, would add immediate employment in the industry with all of its multiplier effects.

We believe a simple modification to the capital construction fund program as I have suggested could give a substantial stimulus to the U.S. tuna-fishing industry and in fact to the entire fishing industry of the United States.

Thank you for allowing me to be here today.

Senator STEVENS. Thank you for coming, Mr. Korth. I have no questions. I am very pleased to see the support from your company and from your region for this legislation. Your support is going to be very helpful to us when the bill is sent over to the House. I appreciate your taking your time to come.

Mr. KORTH. Thank you.

Senator STEVENS. Thank you very much.

Our next witness is Sal Versaggi, president of Versaggi Shrimp Corp., of Tampa, Fla.

STATEMENT OF SAL VERSAGGI, PRESIDENT, VERSAGGI SHRIMP CORP., ACCOMPANIED BY ALLEN GREENBERG, COUNSEL, SOUTHEASTERN FISHERIES ASSOCIATION

Mr. VERSAGGI. Good morning, Mr. Chairman.

Senator STEVENS. Good morning, Mr. Versaggi. Would you identify who is with you for the record?

Mr. VERSAGGI. Yes, I would like to introduce Mr. Allen Greenberg, counsel for the Southeastern Fisheries Association.

I have already submitted my written testimony, and I would like to submit that for the record.

I am the president of Versaggi Shrimp Corp. of Tampa, Fla., and I appreciate the opportunity to appear before the committee today to present the views of Southeastern Fisheries Association, Inc., with respect to S. 254, a bill which would expand the capital construction fund program to shoreside fishery facilities and allow vessel owners with CCF accounts to invest in construction or reconstruction of shoreside facilities.

Southeastern Fisheries Association, which is headquartered in Tallahassee, is the largest commercial fisheries trade association in the Southeastern United States. It has more than 400 members

from all sectors of the commercial fishing industry from North Carolina to Texas.

We believe that the shoreside extension of the CCF program would be of real benefit to the fishing industry in the Southeast, and we strongly urge passage of this legislation.

I will not read my whole testimony, because you do have it, and I am sure it has been reviewed.

We personally as a family-owned company have used the CCF program, and we have found it to be very beneficial. The CCF has allowed us to free up a lot of capital to expand and modernize our fleet and to put us in a better competitive position with other countries and people that are in the same industry as we are in our region, the Southeast.

We find a lot to be done with underutilized species. If only one-sixth of the underutilized resources of the gulf could be harvested, this could generate revenues of $150 million per year and create some 11,000 jobs. Incentives to invest in needed shoreside facilities such as those provided by S. 254 would make a significant contribution to insuring that such an investment is in fact made in our region.

The one risk that I would see in the capital construction fund extending to shoreside facilities is, of course, that it may encourage overcapitalization. However, I am confident that in administering this program, the Secretary of Commerce can and will take appropriate steps to insure that this does not happen.

In summing up S. 254, I think it is sensible and needed legislation. It is especially attractive because it assists those who are most efficient in production; that is, those who have profits to reinvest and those who wish to do so. I know that the members of this committee have supported such legislation for the past several years, and I thank you for it. I hope that this year will finally see the passage of the shoreside extension of CCF.

Thank you again for the opportunity to appear before you today. I would be most happy to answer any questions you may have.

Senator STEVENS. Thank you very much. I appreciate the fact that you have taken the time to come here. Your testimony, in conjunction with the previous witnesses, points nationwide support for this legislation. In the past we have passed this legislation twice in the Senate, but the House has pointed out we have never held hearings on the legislation. This time we are trying to make a substantial record, and to get the bill considered early in the year.

I do not have any questions. You have answered my one question concerning the extent that you can develop the underutilized species of the gulf and the South Atlantic. I am hopeful that this bill will accomplish that.

Mr. VERSAGGI. I would like to make one additional comment, if I may, Senator. I have heard it mentioned a few times already this morning, about the subsidization of foreign fleets and governments that are wholly in the fishing industry, and just as an example, from Paris, France, just recently, say, in the latter part of last year, the U.S. Embassy put out a bulletin that was published by the U.S. Department of Commerce where the French Ministry of Ocean Affairs has drafted a 5-year, $370 million investment program from 1982 to 1986 to modernize the country's fishing fleet.

It says here the government will finance the program through grants and low-interest loans to the fishermen. This will include a middle distance fleet which will include vessels up to 132 feet. It will include a high seas fleet at the cost of an estimated $26.4 million. The tuna fleet, they plan to build 12 tuna seiners which also cost over $70 million. Landing facilities, an additional $5.7 million, will be budgeted to modernize the unloading facilities at French fishing ports, and like I say, some of these, the financial terms are low-interest loans, and some of them are outright grants, and these grants to commercial fishermen will cover 12 to 35 percent of the projects planned by the modernization program.

This is what the fishing industry in the United States is up against, and if we do not receive some sort of assistance from our Government to compete with these foreign programs, we are at a tremendous disadvantage. I think this is just typical of one of the many kinds of programs that we see around the world. Thank you.

Senator STEVENS. Thank you very much. I started out my legal career representing the American Tuna Boat Association. I remember the size of boats and vessels that they had in the 50's and then in 1979 I took a ride with a friend of mine on one of his tuna clippers out of San Diego. The change in the fishing fleet is apparent to anyone who has known it over the years. Unfortunately, however, we have not provided sufficient stimulus for modernization of our shoreside facilities to handle the increased harvesting capability of our fishing fleet.

I am pleased to see that the processing industry is apparently uniformly supportive of this legislation, and again, I thank you very much. We are going to see to it that the Members of the House receive the copies of the testimony that you and others have taken the trouble to come here and present this morning. I hope you will not face these questions again in the future.

Mr. VERSAGGI. Thank you.

Senator STEVENS. Thank you, sir.

[The statement follows:]

STATEMENT OF SAL VERSAGGI, PRESIDENT, VERSAGGI SHRIMP CORP. ON BEHALF OF SOUTHEASTERN FISHERIES ASSOCIATION, INC.

Good Morning. My name is Sal Versaggi. I am the President of Versaggi Shrimp Corporation of Tampa, Florida. I appreciate the opportunity to appear before the Committee today to present the views of the Southeastern Fisheries Association, Inc. with respect to S. 254, a bill which would extend the Capital Construction Fund ("CCF") program to shoreside fishery facilities and allow vessel owners with CCF accounts to invest in construction or reconstruction of shoreside facilities.

Southeastern Fisheries Association, Inc., which is headquartered in Tallahassee, Florida, is the largest commercial fisheries trade association in the southeastern United States. It has more than 400 members from all sectors of the commercial fishing industry from North Carolina to Texas. We believe that the shoreside extension of the CCF program would be of real benefit to the fishing industry in the Southeast, and we strongly urge passage of this legislation. In explaining the basis for this judgment, I would first like to dwell briefly on my own experience with the CCF program in the Southeast and then turn to a discussion of the ways in which CCF, if extended shoreside, could be used in the Southeast.

Versaggi Shrimp Corporation is a family owned company which has been in business since 1912. We currently operate fifteen distant water shrimping vessels. Our experience with the CCF program has been positive and convinces me of its usefulness to the industry should it be expanded shoreside.

Our company has now been in the program about four years. In 1979 we put approximately $1,250,000 in to a CCF account, in 1980 approximately $650,000, and

last year our CCF contribution was more than $800,000. These contributions have allowed us to free up substantianl cash, which we have plowed back into new vessel construction. The CCF program, in other words, has allowed us to keep our fleet up-to-date and competitive. At the same time, we have found that the program works smoothly and imposes little in the way of paperwork burdens.

In short, CCF is a program with a real payoff to a company like our own which is committed to the maintenance and expansion of the most efficient possible fleet. It seems obvious to me that these benefits would accrue equally to operators of shoreside facilities, or to vessel owners who wish to invest shoreside, if S. 254 were passed.

In our region, moreover, extension of CCF shoreside should greatly assist us in realizing our potential for growth. Over the past several years Congress, particularly through the efforts of those on this Committee, has done much to help promote the development of the U.S. fishing industry. We deeply appreciate this assistance. But there is still much to be done. In the Southeast, the potential for growth is tremendous. If only one-sixth of the underutilized resources of the Gulf could be harvested, this could generate revenues (ex-vessel) of $150,000,000 per year and create some 11,000 jobs. Incentives to invest in needed shoreside facilities, such as those provided by S. 254, could make a significant contribution to ensuring that such an investment is in fact made in our region.

I should note that some of the peculiarities of the Southeast make this legislation all the more important. The warm waters of the Gulf and South Atlantic, combined with the small size and oily nature of many finfish species, create unique handling and storage problems in the Southeast. If we are to begin to develop some of our underutilized resources, we simply must invest in new handling and storage techniques—the kind of investment which will be encouraged and promoted by S. 254.

In addition, passage of S. 254 would have other important, though perhaps less dramatic, effects. It is always difficult to project how many and what kinds of new facilities will be built in a region if capital is freed up. Nonetheless, when I look around the Gulf Coast, I see real and immediate needs for, and interest in, upgrading and refurbishing of existing facilities. Investment in such relatively small items as ice plants or freezers, for example, could help greatly to improve the competitiveness of small processors and primary wholesalers. These kinds of investments are especially important in our region where product may be subject to rapid spoilage if not adequately preserved.

My view as to the likelihood and desirability of small scale investments and refurbishing and upgrading is confirmed by an examination of current CCF accounts in the Southeast. As I understand it, at the end of 1982, there were about 350 active CCF accounts in the Southeast, with a balance on deposit of approximately $12,000,000. This is not an enormous sum of money. It is probably not enough for major investments in a number of new plants (although it could help provide seed money for new construction). However, it could well be used for more modest investments, which would result in real improvements in the overall efficiency of our industry. Smaller, family-owned enterprises might benefit particularly. I am thus convinced that the passage of S. 254 would not only free up monies for investment in shoreside facilities, but that those monies would in fact be used and help the entire industry in the Southeast prosper.

The one risk with any incentive program is, of course, that it may encourage overcapitalization. However, I am confident that, in administering this program, the Secretary of Commerce can and will be able to take appropriate steps to ensure that this does not happen.

In sum, S. 254 is sensible and needed legislation. It is especially attractive because it assists those who are most efficient and productive, i.e., those who have profits to reinvest and who wish to do so. I know that the members of this Committee have supported such legislation for the past several years. I thank you for it. I hope that this year will finally see the passage of the shoreside extension of CCF.

Thank you again for the opportunity to appear before you today. I would be most happy to answer any questions that you may have.

Senator STEVENS Our next witness is Alec Brindle, president of Pacific Seafood Processors.

Good morning.

STATEMENT OF ALEC BRINDLE, PRESIDENT, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, ACCOMPANIED BY KATHY NORDSTROM, WASHINGTON REPRESENTATIVE

Mr. BRINDLE. Good morning, Mr. Chairman.

I am joined at the table by Kathy Nordstrom, who is a representative of Pacific Seafood Processors Association.

My name is Alec Brindle. I am president of Pacific Seafood Processors Association, and president of Wards Cove Packing Co. Pacific Seafood Processors Association is a trade association composed of the majority of seafood processing companies with operations in Washington, Oregon, and Alaska. The combined economic impact in these States is approximately $1.5 billion. Our capital investments exceed $500 million.

For myself personally, and as president of the association, I strongly support S. 254. I was struck this morning by the unanimity among the processing segment of seafood processors in the United States in favor of this bill. As the Senator is well aware, there are few times when the fish processors in the United States can get together and agree on a single item, and I think this bill is a bill whose time has come. It is important now. It is needed now, and the opportunity exists now in the offshore fisheries to let the U.S. industry take advantage of the resources that have become available to us; but in order to do so, we need the incentive that this type of legislation would give us.

You mentioned in your discussions with the last speaker the change in the harvesting segment—the growth in the tuna vessels. I am sure, Senator, you are aware of the change in the crab fishing vessels in Alaska. I think the CCF legislation, having been extended to the harvesting segment, has really led to the creation of the Yankee Clipper in the fishing fleets of the world. The U.S. vessels are preeminent in this regard, and the ability of those vessels to take some of their profits and reinvest them into new improvements, new modifications, new technological innovations has frankly let the U.S. harvesting vessel outstrip our processing capability as we have not had these advantages available to us.

Frankly, Senator, we have stood in awe of what the harvesters have been able to do. This proposal would extend these types of benefits to the shoreside processors, and would allow some of those profits in the harvesting fleet to be used for shoreside expansion. Those of us that are ashore will be able to do the same thing and to expand our shoreside and for floating facilities to take advantage of the opportunities that are there.

In 1976, the Magnuson Fishery Conservation and Management Act was passed. We looked to it as a great opportunity for us to increase the size and the efficiency of the domestic processing industry so as to provide the jobs, the revenues, and the developments in the many coastal towns around the country that are so vitally needed. To date, I am afraid we have been unable to fully realize that potential; but, we are confident that with the passage of this bill, our ability to realize that potential will come to fruition, and the concepts of the Magnuson Act will be fully attained.

Senator STEVENS. Thank you very much for coming. I will include your complete statement and all the others in the record.

One of the people I talked to in the Congress about this bill said, if you want to move these funds ashore, let us repeal the authorization to create the CCF fund. My response to him was, I do not think you understand the industry, because if we do move these funds ashore and provide a greater capacity for processing, that will in turn give a stimulus to a further expansion of the fleet. Further expansion is necessary to complete the cycle of trying to move out foreign fishing harvesting vessels and to take the edge away from the foreign processors by having a capital base for the expansion and modernization onshore.

Would you agree with that? Do you think we will see a further expansion of the harvesting capability if we do modernize and expand processing facilities ashore?

Mr. BRINDLE. I do not think there is any doubt that will happen, Senator. The word often used is synergism, and I cannot think of a more synergistic situation than to have this interchange of capital between the harvesting sector and the shore-side sector. We hope the plan to phase out foreign operations within our fishing also is implemented. The potential for expansion is enormous, and we look forward to being able to participate in that expanding fishery.

Senator STEVENS. Thank you, and thank you for bringing Kathy Nordstrom along. We know her well, and the help she gives us here in Washington is greatly appreciated.

I am happy to have Senator Murkowski here with us at the hearing this morning. Frank, do you have a statement or a comment or questions at this time?

STATEMENT OF HON. FRANK H. MURKOWSKI, U.S. SENATOR FROM ALASKA

Senator MURKOWSKI. Thank you, Ted. I have a short statement which I would like to make.

Mr. Chairman, I am pleased to express my support for S. 254, a bill which would amend title VI of the Merchant Marine Act of 1936 to permit the use of capital construction funds for expansion or construction of onshore fish processing facilities. I am a cosponsor of the bill, which was introduced by you, Senator Stevens, on January 27, 1983.

Present provisions in the Merchant Marine Act allow certain U.S. merchant and fishing vessels to defer the payment of Federal taxes on income from the operation of those vessels. The taxation is deferred annually and set aside in special accounts reserved for the equity portion of future capital investments in vesels. The intent of the fund is to promote growth of the American fishing industry. S. 254 would allow fishermen to use capital construction funds to develop onshore processing facilities, and onshore processors to invest in fishing vessels.

Mr. Chairman, this legislation is commendable for several reasons. First, it costs the Federal Government very little, since the deferred taxes will be offset by reductions in the depreciation allowance for property acquired with the tax-deferred funds. Second, it will encourage the development and revitalization of onshore procesing facilities.

Third, it will provide a new source of capital for investment in traditional fisheris and in the potentially huge bottomfish industry. Fourth, it will inject new life into our domestic fisheries by restructuring our industry vertically to capture greater control of all sectors, from harvesting to merchandising.

It has been estimated that domestic development of major fisheries over the next 10 years could increase domestic landings by 2.5 million metric tons per year, augment vessel revenues by $782 million annually, create over 43,000 permanent jobs, add $1.2 billion annually to the GNP, and reduce our annual trade deficit by $1.7 billion. The indirect benefits to Alaska in the building construction trade, in recreational revenues and in secondary employment should be substantial.

The evidence of foreign fisheries' success in U.S. waters shows that there is ample opportunity for U.S. fishermen to increase their catch, and at the same time improve our annual fisheries trade deficit position, which in 1981 was in the neighborhood of $2.5 billion. Over the last decade, foreign nations have taken well over 20 million metric tons of fish from U.S. waters, and foreign fishing in U.S. waters continues at a very high level. The size of the foreign catch suggests a significant potential for expansion of the domestic harvest, with over 5.8 billion pounds of groundfish available for harvest annually in Alaska and 984 million pounds in traditional fish harvests, it is essential that we create incentives for the growth of onshore processing.

In order to stimulate construction of new fisheries, relatively large capital investments will be necessary. It has been estimated that construction costs for processing facilities capable of handling all the bottomfish harvested annually in U.S. waters (about 2.6 billion pounds) could total $1 billion. Risks will be great, given the current market situation and the high level of production necessary to offset low profit margins. Initial capital costs and expected losses incumbent in gaining entry to a market are higher for fisheries than for many other investment sectors. Construction costs must be capitalized in a sound manner.

I believe this bill will provide an excellent catalyst for investment, and will lead to the revitalization and strengthening of the domestic U.S. fishing industry. I hope my colleagues will join me in support of this measure.

I appreciate the comments of the witnesses here today. I am wondering, Alec, if you could for the benefit of the committee and my own edification particularly indicate what areas you would see first being developed by the greater capability of the shore-based plant to take advantage of this legislation. Where would you start, in other words? We have all seen tremendous resource capability, and by modernizing the shore-based plants, where do you anticipate you would initially start?

Mr. BRINDLE. Well, I have to limit myself, Senator, to Alaska, because that is the area of our operations. I would say, in the coastal communities in Alaska, processing is now limited to the high value species such as salmon, crab, and halibut. There are cod and pollock resources that are available within the fishing range of those coastal communities. Those are the species where you would see the new development take place. Existing plants, I am sure, would

expand to take advantage of those species which are there in some of the more remote areas where you may not have plants now. I am sure you would see new construction take place.

We all recognize the fact that a great bulk of this fishery is located well offshore, and would have to be processed in floating processors; but, there are within areas around Kodiak Island, Dutch Harbor, Akutan, Ketchican, Juneau, these other resources that are available, and they have not been processed in the past because frankly they are at this point in time a low margin item.

The processors in Alaska have labored under some difficulties in profit management, and they have had to stick to these high profit species in order to maintain their operations. If we can get the ability to have the funds that are set aside by the fishing vessels transferred to the shore facilities to help them build up, and then the shore facilities increase their technological capabilities to go back to the fleet, I am quite confident that the range that the harvesting vessels will be able to go to bring the fish back to shore will expand as new technologies come along, and we will just see this natural growth.

I mean, in Alaska, as you know, the shores are covered with the remains of former processing plants that were involved in a great many species in the past. Species have come and gone in Mother Nature's way, but tremendous resource is still there. It is available to us. However, we need this added incentive to make it all come true.

Senator MURKOWSKI. One more question, Mr. Chairman.

Do you foresee new plants being built, or existing more traditional salmon canneries that we seem to have an abundance of, in terms of the actual number that actually operate at any given time? Do you see those being renovated and modernized or new plants being built?

Mr. BRINDLE. Senator, I would see both. I would see those existing facilities expand in areas where they can. Also, within the limits of water supply and other problems, remote locations will certainly expand to take advantage of it. I can think of several locations now that are capable of doing that. Then, where land is available, where the support facilities are available, I think you will see new plants being constructed. Some of these fisheries are available in areas where the traditional fisheries have not been in sufficient enough numbers to build a plant. They will probably be able to go into those areas and construct new facilities to work on species that are presently underutilized.

Senator MURKOWSKI. I have one more question, if I may. One seems to beg another.

Do you have any indication of what the mix might be between an expansion of shore-based facilities and greater utilization of the processors at sea? What kind of a mix are we looking at, 50–50, or do you anticipate more shore-based processors as we gradually wind down the joint ventures?

Mr. BRINDLE. That is difficult to answer, Senator. It would take better knowledge, stock assessment knowledge than I have, but I think the shore-side development would be in two ways. First, there would be a renovation and a refurbishing and a rebirth of the existing facility. As you know, the facilities at Dutch Harbor

are, at the present time, almost moribund because of the collapse of the crab fisheries. Facilities like that would almost surely come on stream very quickly.

The offshore fishery will continue to be significant. I could not put it in percentages. But those fleets will need shore bases. They will need a place to come home to. They cannot stay out on the ocean forever. They will have to deliver their product. They will need transportation. They will need fuel. They will need docking facilities, repairs and maintenance. These facilities will be placed in the areas that are closest to the fishing grounds for the convenience of the fleet.

So, the idea that some of these species are offshore and are going to be processed offshore does not mean no benefit to the shoreside industry at all, because the shoreside fishing industry is more than just warehouses and plants. It is repair, maintenance, shipbuilding, supplies, and all the things that go in to make a fishing operation viable. So, I hesitate to give you a percentage, because it would be the grossest kind of guess, but I think I can assure you that those offshore processing vessels will greatly impact the shore-side economy and impact it for the better.

Senator MURKOWSKI. Thank you.

Thank you, Mr. Chairman.

Senator Stevens: Thank you.

Kathy, do you have a comment?

Ms. NORDSTROM. Yes, Senator. I just wanted to say that this kind of mechanism in addition to the other things you good people have recently done in terms of the agricultural programs that you are trying to get extended, and are getting extended, to fisheries are of great assistance. With your help and the help of the National Marine Fisheries Service, we can see a lot of doors opening, and we really appreciate that. We look forward to continuing to work with you in those areas.

Senator STEVENS. Thank you very much. I appreciate the help that your people have given us in those efforts, too. Thank you.

Our last witness this morning is Mr. William Lunsford, of Zapata Haynie Corp. Good morning, sir.

STATEMENT OF WILLIAM LUNSFORD, JR., VICE PRESIDENT OF EXTERNAL AFFAIRS ZAPATA-HAYNIE CORP.

Mr. LUNSFORD. Good morning, Senator Stevens, Senator Murkowski.

I am Bill Lunsford, vice president of external affairs of Zapata-Haynie Corp. I am here to testify in favor of S. 254. Our company traces its participation in the U.S. menhaden fishery over 130 years. We are vertically integrated, currently operating 37 fishing vessels and four menhaden processing plants. Three of the plants are located on the Gulf of Mexico, and one on the Chesapeake Bay in Virginia.

Our vessels average 170 feet in length, and are over 300 registered gross tons each. We employ approximately 1,200 persons, and produced over 200,000 metric tons of product last year.

Although menhaden may not be as familiar to most people as salmon, tuna, or shrimp, it accounts for about 43 percent of all

landings in the United States. In recent years, the menhaden catch has exceeded 1.2 million tons.

The U.S. menhaden catch is processed into oil, meal, and solubles. It supplies approximately 75 percent of all fish meal, 80 percent of the marine oils, and nearly 80 percent of all fish solubles produced in the United States. Menhaden meal is used primarily in poultry and livestock feeds as a protein supplement. Fish oil is used in a number of products, including paints, cosmetics, industrial coatings, and when exported, it is frequently added to margarine and cooking fats. Fish solubles are frequently added to poultry and swine feeds as a liquid feed ingredient. Small quantities of menhaden are used for bait and canned pet food.

In Europe, menhaden and other fish oils are used as edible products, but they do not have Food and Drug Administration approval in the United States. Since 1977, the National Fish Meal and Oil Association and the National Marine Fisheries Service have been cooperating in a research program which we hope will lead to FDA approval to allow the use of partially hydrogenated menhaden oil for human consumption in this country.

Mr. Jensen mentioned in his testimony the efforts in upgrading products from industrial fish. Research is under way at this time to investigate the potential use of menhaden in the production of surimi. Surimi is a Japanese word that comes from their researchers who perfected the process. It is the term used by the industry to designate highly washed, mechanically deboned fish to which various ingredients such as sugar, sorbitol, and salt have been added. Frozen surimi is the intermediate raw material that can be used to produce a wide variety of products that look, feel, and taste like shrimp, crab, clams, scallops, other items.

Advanced methods of harvesting and handling menhaden are also needed to keep our industry competitive and viable. All of these developments will require substantial capital investment. Our ability to invest pretax funds in the construction and reconstruction of our shore-side facilities would accelerate the development and put us in a better cost competitive position with our foreign competitors. It is a proposal which makes sense and one which our company supports.

Thank you very much.

Senator STEVENS. Thank you very much. You have a very enviable position as an integrated company, and we are very pleased to see that you would come.

Mr. LUNSFORD. Thank you, sir.

Senator STEVENS. I want to place in the record a letter from the Highliners Association of Seattle, Wash., signed by Rudie Peterson, the president, and also a letter the committee has received from Merrill Lynch, Pierce, Feener & Smith, signed by Morris R. Clark, Corporate Financial Services of their Capital Markets Group, both letters in support of this bill.

It is my intention to ask that this record be printed. I want to again thank all of you who have taken the time to come. As I said before, we have previously heard the complaint that there have been no hearings held on the legislation the Senate has twice passed, and we hope that this hearing will meet that objection.

I am most pleased that we have had support from the west coast, the gulf coast, the east coast, New England, and from Alaska, and that the administration through Mr. Gordon has indicated an awareness of the need for this legislation.

We will keep the record open for a period of a week to make certain that all comments are considered.

Again, I want to thank you all for taking your time to come today. I am pleased to see the unanimous support expressed here by the processing industry for this proposal. I know of no objection from the harvesting portion of the industry. I believe they understand the necessity for this legislation, too.

Thank you very much.

[Whereupon, at 10:32 a.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF CHARLES H. FRITTS, LEGISLATIVE REPRESENTATIVE, NEW BEDFORD SEAFOOD COUNCIL, NEW BEDFORD, MASS.

The New Bedford Seafood Council represents the vessels and crewmen who operate out of New Bedford, Massachusetts. In terms of value of landings, New Bedford is the largest commercial fishing port on the East Coast.

The New Bedford Seafood Council supports S. 254, to permit the establishment of capital construction funds for fishery processing facilities.

The use of Capital Construction Funds is presently restricted to vessels. It allows the vessel owner to enter into an agreement with the Department of Commerce wherein deposits are made in a fund for the purpose of purchasing a new vessel or reconditioning an old one. Income taxes on the deposits into the fund are deferred as long as the money is applied to a capital expense involving a vessel.

The effect of the Capital Construction Fund as it applied to fishing vessels is to provide an incentive for the fishing industry to invest in itself. A fisherman can reinvest his earnings in his vessel or a new vessel.

The harvesting sector is only one part of the fishing industry. The processing and distribution sectors are equally important to the overall growth of the domestic fishing industry. Without adequate fish processing and distributing facilities, the industry will not prosper. Simply put, there is no benefit to harvest fish that cannot be processed, distributed and sold to the consumer. Neither the processing nor the harvesting sector can grow without the other.

As harvesters of fish, we need proper and adequate processing facilities. The extenstion of Capital Construction Fund treatment to fishery facilities would have a tremendous impact on the U.S. fishing industry. It would increase the size and number of fish processing plants. It would provide jobs in the industry. It would help make the United States more competitive in the worldwide fishery market.

S. 254 is an essential piece of legislation to insure that the domestic fishing industry achieves the goal of full utilization of our fishery resources.

I urge this Committee's support for this bill.

STATEMENT OF LEE O. KUECHKELHAN, CPA FOX & CO.

DEAR SENATOR: This statement outlines support of the general concept of S. 254 from the viewpoint of an accounting firm. It also provides suggested additions to the Bill that would stimulate broader use of existing Capital Construction Funds (CCF) to accomplish the objectives of the entire CCF program in the seafood industry.

Our Seattle office represents over 250 individuals, partnerships and corporations in the Northwest and Alaska seafood industry. These clients have 78 CCFs with deposits on hand in 1982 totaling nearly $11,000,000. Qualified withdrawals from these CCFs over the years have exceeded $40,000,000.

SUPPORT OF GENERAL CONCEPT

The expansion of the CCF program to include shoreside facilities is a logical step in furthering Congressional intent to develop U.S. fisheries. This intent has been clearly expressed through the existing CCF program and the establishment of the 200-mile limit. Including shoreside facilities recognizes that proper development of U.S. fisheries depends on successful operation of both fishing and processing activities. The financial benefits of deferring income taxes through the CCF program have helped and should continue to help the entire seafood industry become more competitive in world markets.

SUGGESTED ADDITIONS TO BILL TO STIMULATE BROADER USE OF CCFS

Extending the CCF program to shoreside facilities can allow fishing vessel owners with CCFs to participate in development of these facilities. This will increase the

available pool of equity capital. We are concerned, however, that this available capital may not be used unless certain clarifying changes to existing law are included in S. 254. These changes are needed not only for shoreside facilities but also for floating processors and catcher/processor vessels.

To understand the importance of the needed clarifications, an understanding of the way the industry is normally financed is important. Unlike most industries, equity capital for most successful vessels and processing facilities normally has come from within the industry. Since it is a capital intensive industry with considerable financial risk, pooling of capital is very common in order to spread this risk. For example, most fisherman own a part interest in more than one vessel. Some also have used CCFs to acquire part ownership in processing vessels and catcher/processor vessels.

Section 607 of the Merchant Marine Act does not clearly allow tax-free transfers of CCFs in pooling of capital situtations. Normally capital is pooled by forming a partnership or corporation. Proposed regulations and unwritten positions of the Internal Revenue Service have created doubt whether transfers can be made to or from a partnership or to a corporation. Due to this uncertainty, parties to CCF agreements have been hesitant to pool their funds to provide capital to partnerships or corporations.

Technical provisions of the present law and regulations are summarized as follows:

Section 607(i) and Proposed Regulation 3.8 provide for tax-free transfers of CCFs in corporate mergers, corporate subsidiary liquidations and partnership mergers. However, the law is totally silent regarding tax-free transfers of CCFs to and from partnerships or to corporations. Because the Merchant Marine Act is silent, the general provisions of Sections 721, 731 and 351 of the Internal Revenue Code most likely allow these tax-free transfers. However, the Internal Revenue Service position indicated it may not interpret the law this way.

Proposed Regulation 3.8(b)(2) provides a cumbersome procedure for allowing tax-free transfers to corporations under Section 351. This procedure requires prior Internal Revenue Service approval. Prior approval should not be necessary, since it is not required for any other transactions under Section 351. Obtaining prior approval unduly delays starting of new projects.

Neither the final nor proposed regulations address the question of whether tax-free transfers may be made to partnerships under Section 721 or made out of partnerships under Section 731. When the National Marine Fisheries Service authorizes qualified withdrawals from CCFs for investment in jointly-owned vessels or in partnerships, the formal authorization letter includes a caveat to the effect that the Internal Revenue Service's position is not clear as to the tax treatment of the withdrawal. This position, however, has never been put into writing.

Unless changes are made to clarify present law as part of S. 254, we believe our concerns are justified that many existing CCFs will not be used to finance shoreside facilities. We believe the same problem exists as to withdrawals from CCFs to finance floating processing facilities and catcher/processor vessels. Both shoreside and floating facilities require large amounts of equity capital and considerable business operating risks (product liability, market risks, employee injuries, ect.). Prudent business judgment requires processing activities to operate within corporations or limited partnerships to protect investors' assets from exposure to these liabilities.

SUMMARY

If the present Act is interpreted to preclude certain tax-free transfers of CCFs, then many CCFs will not be usable to accomplish the intent of Congress to help develop U.S. fisheries and the seafood industry. This will reduce the available pool of funds within the industry to invest in modernized processing facilities, whether they be shoreside or floating. Since most successful operations historically have been financed by industry sources, it seems counterproductive not to make sure the CCF program is designed to encourage further use of these sources.

We do not believe Congress intended to place these restrictions on the use of CCFs. We strongly urge the Committee to add provisions to the Bill that will eliminate this problem. We would be happy to assist in developing the specific technical provisions needed.

THE HIGHLINERS ASSOCIATION,
Seattle, Wash., May 6, 1983.

Hon. TED STEVENS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR STEVENS: The Highliners Association wishes to go on record as supporting the passage of S. 254 . . . a "Bill to Provide for the Inclusion of Capital Construction Funds for Fish Processing Facilities."

We favor S. 254 out of a sense of fairness to processors who should receive the same kind of benefits that we as vessel owner/operators enjoy under the Capital Contruction Fund. More important, however, is that we sincerely believe it would benefit all sectors of the fishing industry, as well as the nation's economy.

The financial incentive provided by S. 254 for expanding fish processing capacity is particularly needed in Alaska where a very large groundfish resource is available for use by Americans. The remoteness of Alaska fishing grounds imposes unusually high construction and operating costs. This has been a very significant impediment to the development of American processing capacity for Alaska groundfish.

An additional and perhaps unanticipated benefit of S. 254 could be the pooling of Capital Construction Funds accumulated by vessel owner/operators with credits accumulated by processors in order to obtain the large capital investments required for the kinds of processing facilities required in Alaska. For lack of such a capacity, foreigners instead of Americans are now the primary users of Alaska groundfish, with far fewer benefits accruing to the United States than if it were to be a United States' enterprise.

The next few years will be especially critical to the fishing industry in Alaska. Except for salmon, the abundance and catches of practically all of the species supporting the traditional fisheries are down from earlier levels. Included in the severely depressed category are such former mainstays of the industry as king crab, Tanner crab and shrimp. A capacity to utilize groundfish could be the means of survival for large sectors of the fishing industry in the years ahead. We view passage of S. 254 as being essential to the attainment of such a capacity.

Although our comments have been in relation to the specific situation in Alaska, we believe that passage of S. 254 would benefit the development of the fishing industry throughout the United States. This would be accompanied by an increase in jobs, growth of the Gross National Product, and a reduction in the United States deficit in the trade of seafood products, which in 1981 amounted to the very substantial figure of three billion dollars.

Yours sincerely,

RUDY A. PETERSEN, *President.*

MERRILL LYNCH, PIERCE, FENNER & SMITH INC,
Seattle, Wash., May 11, 1983.

Hon. TED STEVENS,
U.S. Senate,
Washington, D.C.

Sir: With regret, I am unable to attend the hearing Thursday, May 12, 1983 on S. 254—Inclusion of Capital Construction Funds for Shore-Based Fishery Processing Facilities. We do, however, strongly support this bill, and feel that it would substantially add to the development of our Fisheries Industry.

Shoreside facilities are difficult financings for reasons including, but not limited to, the following:

1. Inadequate equity.
2. Remote sites that are single purpose in nature making collateral value suspect.
3. Industry cycles that can be extreme.

Improving upon any of the preceding allows the financing options to broaden greatly. The fact is that equity use of the C.C.F. for this purpose will allow the antiquated or closed facilities on all coasts a new chance to compete in the world markets that we now face. It will generate tax revenues on new commerce, jobs, and will not involve government subsidies for development. As you are aware, the State of Alaska alone has lost in excess of 200 shore-based fish processing facilities since 1960. The East Coast has faced similar attrition.

We would further encourage an additional change. Currently partnerships with Capital Construction Funds can use those funds only in the context of the original partnership structure. Since partners and circumstances change, it would benefit all if partners could utilize their proportionate shares for development individually.

This would not increase the C.C.F. exposure, but it would free substantial, currently idle funds for new facilities.

Please expend all efforts to encourage the passage of this much-needed bill.

Sincerely,

MAURICE R. CLARK,
Corporate Financial Services.

STATE OF ALASKA,
DEPARTMENT OF FISH AND GAME,
Juneau, Alaska, May 11, 1983.

Hon. TED STEVENS,
U.S Senate, Chairman, Merchant Marine Subcommittee, Washington, D.C.

DEAR SENATOR STEVENS: This letter is to express the support of the Alaska Department of Fish and Game for your bill, S. 254. The proposed amendment to the Merchant Marine Act of 1936 to extend the Capital Construction Fund to shoreside fisheries facilities is an important step toward building a strong shore-based fish processing industry in Alaska.

The proposed legislation would greatly assist in the development of the bottomfish industry, creating a more stable job market in many Alaskan communities. I hope that this legislation can see favorable action soon.

Sincerely,

DON W. COLLINSWORTH, *Commissioner.*

THE PORT AUTHORITY OF NY&NJ,
New York, N.Y., May 18, 1983.

Hon. ROBERT PACKWOOD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PACKWOOD: The Port Authority of New York and New Jersey supports S. 254, which would extend the Capital Construction Fund for use in fishery processing establishments.

The extension of the Capital Construction Fund authorization to processing establishments should greatly enhance the American fishing industry's ability to provide modern onshore port facilities. The United States industry has beeen in the doldrums in recent years, in part because the programs to support vessel construction were not met with complementary support for building modern processing plans onshore. Construction, infrastructure, land and interest costs, as well as unfamiliarity with new processing technologies, have kept the onshore industries from developing the physical plants and new markets for seafood that will bring the industry more prominently into domestic and world markets with U.S caught and processed products.

The Port Authority of New York and New Jersey, as a bi-state agency involved in promoting port commerce, has been involved in planning for possible development of facilities for offloading, handling, processing, and distributing seafood in the New York/New Jersey region. At present, we have found that fishermen on the East Coast have limited incentive to catch underutilized species because of fluctuating prices in the fresh seafood markets and limited access to volume sales opportunities that processing can offer. We have observed, based on extensive analysis, that tapping th significant export and domestic market potential for underutilized species would require a coordinated development program for modern vessels, onshore processing, and cold stores. The applicability of the Capital Construction Fund to processors could assist in accelerating the revitalization and restructuring of the industry.

We appreciate this opportunity to offer our support for S. 254.

Sincerely,

BRENDAN O'MALLEY,
Manager, Regional Development Division.

NATIONAL FOOD PROCESSORS ASSOCIATION,
Washington, D.C., May 18, 1983.

Hon. TED STEVENS,
U.S. Senate, Commerce, Science, and Transportation, Subcommittee on Merchant Marine, Washington, D.C.

DEAR SENATOR STEVENS: The National Food Processors Association (NFPA) appreciates this opportunity to submit comments for the record on S. 254, a bill which would amend the Merchant Marine Act of 1936 (46 U.S.C. § 1177) to permit the establishment of capital construction fund (CCF) programs for fishery processing facilities.

NFPA is a non-profit trade association whose 600 members in more than 43 states pack 95 percent of the entire national production of canned shrimp, salmon, crab, tuna and other seafoods.

NFPA has been a consistent advocate of the extension of CCF programs to shoreside facilities. As early as 1979, we strongly supported this extension and emphasized that it was of key importance to enabling the domestic processing industry to realize the opportunities offered by the Magnuson Fishery Conservation and Management Act (MFCMA). Since then we have reaffirmed our support for this measure several times, most recently in 1981.

In our view, events in the years since the CCF extension was first proposed have only reinforced the need to make this program available to the domestic processing industry. Investment in processing capacity has not kept pace with investment in harvesting capacity (which has been attributed in significant part to CCF), with the result that undercapacity now exists in the processing sector. Our fisheries trade deficit has continued to grow, reflecting in significant part the importation or processed product.

Under these circumstances, we believe that measures to encourage and accelerate capital formation by processors are imperative. CCF is precisely such a measure.

In addition to providing crucial assistance to processors, the proposed CCF extension would afford benefits beyond the processing sector. Shoreside processors make an important contribution to the U.S. economy through director employment, value added, taxes, and the mutiplier effects of their activities on associated industries. In these difficult economic times, such benefits cannot be dismissed lightly.

Turning briefly to the bill before you, we believe that S. 254 represents an improvement over predecessor bills, specifically in its allowance of qualified withdrawals from a CCF for projects in all fisheries, not just underutilized fisheries. We would, however, hope that if this legislation were enacted. Congress would make clear that the bill's purposes should not be defeated by restrictive administrative implementation—e.g., the imposition of dollar minima on investments in new or used facilities, or restrictive criteria as to what reconstruction activity would be regarded as contributing to the development of the United States fishing industry. In short, we urge flexibility in administering the proposed program and confidence in the private sector's capacity to invest wisely in facilities which will benefit the processing industry. We would be happy to discuss with you or your staff these and other provisions in greater detail at an appropriate time.

In conclusion, NPFA strongly supports this bill and commends your continued interest in and pursuit of this important measure.

Very truly yours,

DOUGLAS B. GORDON, *Director.*

ASSOCIATED FISHERIES OF MAINE,
Boothbay, Maine, May 18, 1983.

Senator ROBERT PACKWOOD,
Committee on Commerce, Science, and Transportation, Washington, D.C.

DEAR SENATOR PACKWOOD: At the suggestion of Senator William S. Cohen, the Associated Fisheries of Maine is submitting the following statement regarding S. 254, a bill to provide for the inclusion of capital construction funds for shorebased fisheries processing facilities.

Please be advised that the Executive Committee of the Associated Fisheries of Maine has voted unanimously to support this legislation.

For your information, the Associated Fisheries of Maine is a broad-based trade association, the members of which include seafood processors, fuel and ice companies, freezer and cold storage operators, ship chandlers, boat builders, bankers, attorneys, trucking companies, retail food chains, etc.

As you know, the commercial fishing industry is a major factor in the economy of Maine's coastal communities. Its continued growth and prosperity is of vital concern to the state because of the jobs and income it generates.

In recent years the Maine fisheries have seen a significant improvement in its fishing fleet, as existing vessels have been modernized and as new, more efficient vessels have been constructed. To balance this increased harvesting capacity, the industry now needs to up-grade and expand its shore-based processing plants. It is the view of our Association that S. 254 will provide the mechanism that will help to accomplish this goal.

With sufficient processing capabilities, Maine will be able to utilize fully the fish that its fishermen harvest, thereby reversing a recent trend set by regional fisheries councils to allocate more fish to foreign vessels, and to approve joint ventures between domestic fishermen and foreign processing vessels. Such allocations and joint ventures, which result in lost income and lost jobs for domestic processing plants, would be reduced and eventually eliminated by the up-grading of our shore-based facilities.

Therefore, we urge that favorable consideration be given to S. 254.

Sincerely,

RONALD W. GREEN, *President.*

NATIONAL FEDERATION OF FISHERMEN,
Washington, D.C., May 19, 1983.

Senator BOB PACKWOOD, *Chairman,*
Senator ERNEST HOLLINGS,
Committee on Commerce, Science, and Transportation,
Washington, D.C.

GENTLEMEN: National Federation of Fishermen continues to support, more strongly than ever before, the need to extend the provisions of the Capital Construction Fund to shoreside facilities. As we begin to move in increasingly greater amounts into non-traditional species, the need for this extension becomes more and more apparent. Two clear examples are squid off the East Coast and Pacific cod off Alaska.

We are very grateful to you and your colleagues in the Senate for the continuing support you have given to our efforts to achieve this extension, which we in the industry have sought since the initial stages of the Eastland Fisheries Survey nearly ten years ago, in early 1974. The May 1977 Eastland Report reflected this; under II. Utilization and Development, it said:

"B. Financial Assistance

3. The Congress should extend the application of the Capital Construction Fund as embodied in the Merchant Marine Act of 1936, as amended, to include shoreline [sic] facilities directly related to harvesting, processing and marketing, including aquaculture, of fish products by citizens of the United States, as defined in the Act (42A, B, C [references, respectively, to Gulf, Pacific, and Atlantic recommendations])."

NFF has testified in support of this extension several times since 1979. As I have said before, we are especially interested in the crossover provision, for we have fishermen who have established CCFs which they do not wish to use for new vessels at a time when, in several fisheries, harvesting capacity already exceeds processing capacity onshore. In the squid fishery, for example, had we additional shoreside capacities, we might have had, much earlier on, considerably clearer demonstration of our abilities to handle this product. We might not have been in the position in which we now find ourselves of having to reassess, at the last minute, what additional capacity we could bring on-line as a temporary measure, thereby increasing United States full utilization and lowering TALFF. Though the Point Judith Fishermen's Cooperative (Rhode Island), NFF represents many of the vessels landing squid shoreside. Point Judith is planning to build additional shoreside facilities. Had the crossover provision been available to them shortly after we began discussing this extension, the additional handling capacility we need so desperately now might well have been available.

As I mentioned, Pacific cod is another example. And, as the interest in and ability to harvest black cod increase, that is another species which might readily become fully US-utilized; this year we are looking at a black cod joint venture.

Thank you, again, very much for all of your help. We appreciate it, and we look forward to working with you and your staffs to achieve this vital measure.

Yours sincerely,

LUCY SLOAN, *Executive Director.*

THE TEXAS SHRIMP ASSOCIATION,
Austin, Tex., May 20, 1983.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science and Transportation, Washington, D.C.

DEAR CHAIRMAN PACKWOOD: Thank you for the opportunity to submit comments on S. 254, a bill to extend the capital construction fund (CCF) to shoreside fishery facilities.

The Texas Shrimp Association is a trade association for the shrimp industry of Texas with membership consisting of Texas residents as well as residents of other Gulf States. We are a harvester level association with our members taking shrimp from the Gulf of Mexico.

We believe that expanding the CCF program to allow U.S. fishermen and processors to defer payment of Federal taxes or income from operation of fisheries facilities would be beneficial to the fishing industry. In parts of the country, the lack of U.S. processing and distributing capacity limits the growth of the industry. Full development of the industry would help all the regions of the U.S. but relatively large capital investments are needed. Income from existing shoreside facilities and vessels could be set aside in CCF accounts to be used for investments in new or reconditioned fishery facilities.

We are particularly pleased with the inclusion of Section 607(a)(2)(b) which would allow an established capital construction fund for a fishing vessel to be used to construct or reconstruct fishing facilities. Although shrimp fleet earnings have been low in the past 3 to 4 years and, therefore, we have not had the income to establish CCF accounts, we are hopeful that we will gain economic vitality in the future. We want the option to be able to remain competitive and the ability to use CCF accounts to build or recondition shoreside facilities as well as boats.

We urge, however, that caution be exercised. The funds should not be used to the detriment of the fishing industry by the over capitalization of shoreside facilities in either one area of the country (e.g., Gulf region) or in the fishing industry in its entirety.

In summary, TSA is supportive of S. 254. We believe there is potential for expansion of U.S. shoreside facilities. The ability to use CCF accounts for shoreside facilities will help stimulate balanced growth within the industry and advance the full development of our fishing resources.

Sincerely,

RALPH RAYBURN, *Executive Director.*

Hon. BOB PACKWOOD,
Chairman, Senate Committee on Commerce, Science, and Transportation,
Room 5202, DSOB,
Washington, D.C.

DEAR BOB: I learned today that the Honorable Ted Stevens will chair a hearing May 12 on S. 254, a bill to extend application of Capital Construction Fund accounts to fish processing facilities, which I presume includes those which are shoreside-based. I respectfully request inclusion of this supportive testimony into the record of that hearing.

The Pacific Marine Fisheries Commission repeatedly has addressed the need to expand domestic fish processing capabilities in order to assist U.S. fishing interests to capture the full benefits of fishery resources made available to U.S. fishermen by the Magnuson Fishery Conservation and Management Act. United States fishermen have well demonstrated their capacity to fish competitively with fishermen from other nations in our Fishery Conservation Zone. What is needed now is both floating and shoreside capacity to process those fish for sale to domestic and foreign markets at quality levels and prices which will be competitive in world commerce. Only in this manner can we anticipate a transfer to the U.S. economy of benefits now going to foreign interests, either from directed foreign fishing, or from over-the-side "joint venture" sales by U.S. fishermen.

In November 1980 the Pacific Marine Fisheries Commission unanimously approved Resolution 2 (copy attached) calling for extension of both the Capital Construction Fund and the Loan Guarantee Program to shoreside facilities supportive of the fishing industry. We respectfully urge the Congress to take appropriate steps to assist construction and modernization of shoreside fish processing facilities under provisions of the Capital Construction Fund.

Your sincerely,

JOHN P. HARVILLE,
Executive Director.

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